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Message Text

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43
ACTION TRSE-00

INFO OCT-01 ARA-16 ISO-00 EB-11 COME-00 SS-20 NSC-07 SPC-03

SSO-00 NSCE-00 INRE-00 USIE-00 CIAE-00 INR-10 NSAE-00

RSC-01 L-03 AID-20 IGA-02 FEA-02 INT-08 PRS-01 DODE-00

AGR-20 DRC-01 /126 W
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O 291411Z MAR 74
FM AMEMBASSY CARACAS
TO SECSTATE IMMEDIATE 3187
AMEMBASSY BRASILIA IMMEDIATE
AMEMBASSY SANTIAGO IMMEDITE
AMCONSUL RIO DE JANEIRO IMMEDIATE

C O N F I D E N T I A L CARACAS 2701

E.O. 11652: GDS
TAGS: OVIP (GEORGE P. SHULTZ), EFIN, XM, ENRG

SUBJECT: SECRETARY SHULTZ' MEETING WITH PRESIDENT OF CENTRAL
BANK OF VENEZUELA ALFREDO LAFEE, MARCH 28, 1974

1. MEETING WITH LAFEE FOCUSED ON INTERNATIONAL ECONOMIC AND FINANCIAL ISSUES OF JOINT CONCERN AND WAS CHARACTERIZED BY A PROFESSIONAL ANALYSIS OF NATURE OF PROBLEMS AND OUTLOOK FOR SOLUTIONS.

2. LAFEE OPENED DISCUSSION BY ASKING SECRETARY HIS VIEWS ON INTERNATIONAL MONETARY REFORM, PARTICULARLY IF SOMETHING CONCRETE COULD BE DONE BY JUNE C-20 MINISTERS' MEETING. SECRETARY SHULTZ SAID THE OUTLOOK IS GOOD AND OBSERVED THAT FLEXIBLE EXCHANGE RATES HAVE SERVED THE INTERNATIONAL MONETARY SITUATION WELL AND HAVE PERFORMED BETTER THAN FIXED EXCHANGE RATES WOULD HAVE IN CURRENT ENERGY CRISIS. SECRETARY SAID HE ISOPTIMISTIC ABOUT THE C-20 MEET-
ING IN JUNE AND HOPES FOLLOWING RESULTS WILL BE ACHIEVED.
(A) A STRONGER AND RESTRUCTURE IMF IN WHICH FINANCE MINISTRIES AND CENTRAL BANKS WOULD BE MORE INVOLVED AND WHICH WOULD BE RESPONSIVE
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ENOUGH TO MEET CHANGING CIRCUMSTANCES.
(B) THE ESTABLISHMENT OF RULES FOR A MANAGED FLOAT.
(C) AGREEMENT ON VALUING SPECIAL DRAWING RIGHTS.

3. LAFEE SAID THE CURRENT MEETING OF THE C-20 DEPUTIES DO NOT GIVE BASIS FOR OPTIMISM ON ANY ISSUE EXCEPT RESTRUCTURING FUND. SECRETARY SHULTZ RESPONDED THT THE C-20 DEPUTIES NEVER MADE PROGRESS BUT ONLY DEFINED THE ISSUES WHICH MUST BE DECIDED BY PRINCIPALS WHO ARE THOSE ON FIRING LINE. HEADWAY HAS BEEN MADE ON ADJUSTMENT PROCESS AND GENERAL ACCEPTANCE OF FLOATING EXCHANGE RATES.

4. WHILE LAFEE INDICATED PESSIMISM CONCERNING ANY AGREEMENT ON INTERNATIONAL MONETARY REFORM IN THE SHORT TIME REMAINING BEFORE JUNE MEETING, HE SAID THAT IT IS EXTREMELY IMPORTANT THAT CONCRETE RESULTS BE OBTAINED AT NEXT C-20, AND, IF NECESSARY, CONSIDERATION GIVEN TO PUSHING DATE BACK.

5. SECRETARY SHULTZ SAID THAT IN SUCH SITUATIONS PARKINSON'S LAW PREVAILS AND AMOUNT OF WORK EXPANDS TO MEET THE TIME AVAILABLE.

6. CENTRAL BANK DIRECTOR ANTONIO MAYOBRE POINTED TO DIFFERENCES AMONG EEC FINANCE MINISTERS AND U.S. AS MAJOR STUMBLING BLOCK TO AGREEMENT. SECRETARY SHULTZ COMMENTED THAT IF MINISTERS OF FINANCE FROM EEC AND US SHOULD BE PUT IN A ROOM AND NOT LET OUT UNTIL AGREEMENT ESTABLISHED, THEY WOULD PROBABLY REACH AGREEMENT. HE REMARKED, IN GENERAL, FINANCE MINISTERS HAVE A COMMON BOND RESULTING FROM WORKING IN A REALISTIC WORLD DOMINATED BY NEED TO HAVE NUMBERS BALANCE ON BOTTOM OF SHEET.

7. SECRETARY SHULTZ SAID RECENT INCREASES IN OIL PRICES HAVE HAD MAJOR EFFECT ON DEVELOPMENT OUTLOOK FOR LDC'S.

8. IN RESPONSE TO COMMENT BY MAYOBRE ON IDA REPLENISHEMT, SECRETARY SHULTZ SAID CONGRESS VOTE WAS UNACCEPABLE AND HE AND SECRETARY KISSINGER SAID SO IN PUBLIC STATEMENT. WHILE FOREIGN AID HAS NO GENERAL POLITICAL CONSTITUENCY IN ANY COUNTRY, THERE HAD BEEN A LARGE NUMBER OF STRONG, FAVORABLE EDITORIALS AFTER THE IDA VOTE.
HE BELIEVE HEADWAY IS BEING MADE IN REVERSING VOTE IN CONGRESS
IN SENATE

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9. IN RESPONSE TO SECRETARY SHULTZ' QUESTION AS TO HOW OIL PRODUCERS EXPECT LDC'S TO PAY FOR OIL IMPORTS, MAYOBRE SAID THAT PRICE PROBLEM INVOLVES MUCH MORE THAN OIL AND INVOLVES HIGHER PRICES FOR ALL TYPES OF IMPORTS, PARTICULARLY MACHINERY AND RAW MATERIALS. SECRETARY SHULTZ SAID THAT FERTILIZERS AND OTHER PETROCHEMICAL PRODUCTS HAVE BEEN ESPECIALLY EFFECTED BY INCREASE IN OIL PRICES.
IN RESPONSE TO QUESTION ON WHETHER INCREASED OIL PRICES HAD CHANGED U.S. POSITION ON SDR-AID LINK, SECY SHULTZ FIRST EXPLAINED IT HAD

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NOT AND HIS VIEW THAT THE FIRST PRIORITY WAS TO HAVE A WELL FUNCTIONING REFORMED MONETARY SYSTEM. A LINK WOULD UNDERMINE FIRST OBJECTIVE AND PROBABLY NOT ATTAIN AID OBJECTIVE. HE SAID THE MAGNITUDE OF IMPACT OF OIL PRICES HIGHLIGHTED THE INCONSEQUENTIAL NATURE OF ANY POSSIBLE LEVEL ON SDR ISSUE FOR AID PURPOSE.

10. CONCERNING PROBLEM FACING ALL NATIONS OF INFLATION, SECRETARY SHULTZ SAID THERE APPEARS TO BE A TURN-AROUND IN THE INFLATION IN US WHICH HAD INCREASED AT THE RATE OF 10 PCT FROM FEB 1973 TO FEB 1974. FIFTY-FIVE PERCENT OF INCREASE IN CONSUMER PRICE INDEX IS ATTRI-

TUBED TO FOOD AND ENERGY 25 PCT. EXPECTATIONS NOW ARE FOR A DECLINE IN

FOOD PRICES RESULTING FROM AN INCREASE IN SUPPLY. THE PRICES OF BEEF, HOGS, AND POULTRY IN THE US ALREADY ARE LOWER THAN A YEAR BEFORE. THE WINTER WHEAT CROP TO BE HARVESTED IN MAY OR JUNE IS EXPECTED TO BE BIG AND PLANTING FOR NEXT YEAR IS UP CONSIDERABLY.

11. IN THE CASE OF OIL, SECRETARY SHULTZ SAID CONSUMPTION IN THE US HAS ALREADY BEEN REDUCED EIGHT PCT AND WORLD PRODUCTION AT THE SEPTEMBER LEVEL WOULD IMPLY SOME EXCESS SUPPLY-AT ANNUAL PRICES. HE COMMENTED THAT THE INCREASE IN OIL PRICES HAD MADE ALTERNATIVE SOURCES OF ENERGY COSTS COMPETITIVE AND REFERRED TO THE VAST RESOURCES OF THE ORINOCO TAR BELT, THE ATHABASCA OIL SANDS AND THE US OIL SHALES AS POSSIBLE ALTERNATIVE SOURCES OF OIL. ONLY ENGINEERING PROBLEMS REMAIN TO BRING THESE ALTERNATIVE SOURCES INTO PRODUCTION AND EXPERIENCE SHOWS US THAT AS NEW TECHNOLOGIES ARE DEVELOPED, THE COST INEVITABLY DECREASES.

12. IN RESPONSE TO QUESTION CONCERNING PROPOSALS OF IMF IN PROVIDING ADDITIONAL CREDIT FACILITIES TO HELP RESOLVE OIL PROBLEM, SECRETARY SHULTZ SAID FUND COULD BE HELPFUL BUT THAT IT WO
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